

Business Situation

Advance Estimates for the Third Quarter of 2003

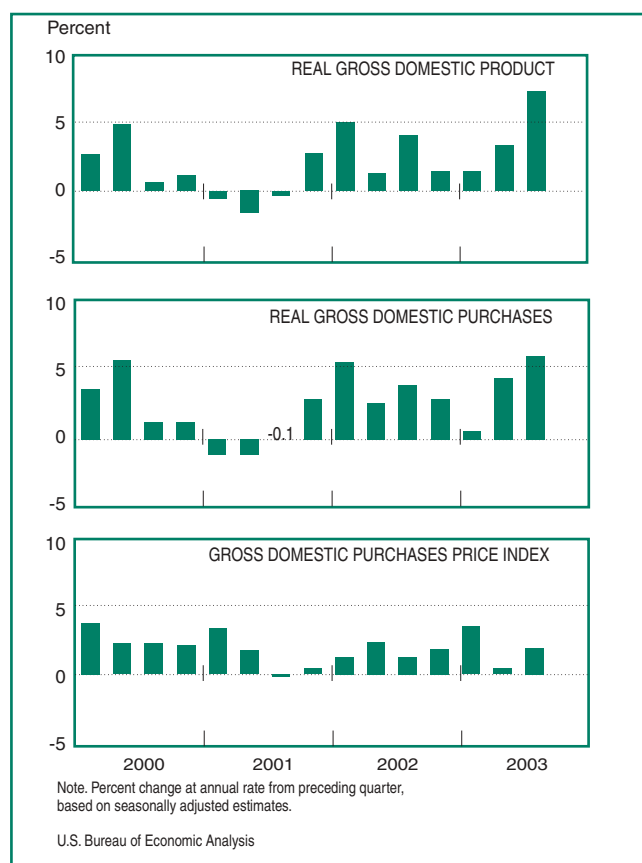
ACCORDING to the “advance” estimates of the national income and product accounts (NIPAs), U.S. production and real disposable personal income accelerated in the third quarter of 2003; inflation was moderate (chart 1).

- Real gross domestic product (GDP) increased 7.2 percent in the third quarter after increasing 3.3 percent in the second (table 1).¹ The most recent increase is the largest since early 1984, but an increase almost as large (7.1 percent) was recorded in the fourth quarter of 1999.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (1996) dollars, and price indexes are chain-type measures.

This article was prepared by Daniel Larkins.

Chart 1. Selected Measures: Change From Preceding Quarter



- Real disposable personal income increased at the same rate as real GDP in the third quarter. The sharp rise largely reflected the effects of tax legislation enacted in the spring of this year.
- The price index for goods and services purchased by U.S. residents increased 1.9 percent in the third quarter after increasing only 0.4 percent in the second. About half of the step-up reflected an upturn in energy prices.

The acceleration in real GDP growth mainly reflected an improvement in the trade balance and stronger growth in consumer spending, but residential investment and nonresidential investment in equipment and software also contributed.² These develop-

2. In this article, “consumer spending” is shorthand for the NIPA series “personal consumption expenditures,” “government spending” is shorthand for “government consumption expenditures and gross investment,” and “inventory investment” is shorthand for “change in private inventories.”

Table 1. Real Gross Domestic Product and Related Measures

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter				
	Level	Change from preceding quarter								
		2003	2002	2003			2002	2003		
	III	IV	I	II	III	IV	I	II	III	
Gross domestic product.....	9,797.2	32.6	33.8	77.4	167.8	1.4	1.4	3.3	7.2	
Less: Exports of goods and services	1,079.3	-16.1	-3.5	-2.6	23.8	-5.8	-1.3	-1.0	9.3	
Plus: Imports of goods and services.	1,602.0	28.1	-25.4	33.3	0.3	7.4	-6.2	8.8	0.1	
Equals: Gross domestic purchases	10,277.5	70.8	15.2	108.7	148.1	2.9	0.6	4.4	6.0	
Less: Change in private inventories	-35.8	7.0	-21.0	-22.4	-18.2	
Equals: Final sales to domestic purchasers	10,294.9	64.0	34.6	126.3	163.9	2.6	1.4	5.1	6.6	
Personal consumption expenditures.....	6,842.1	28.0	33.0	63.0	108.2	1.7	2.0	3.8	6.6	
Durable goods.....	1,126.6	-21.8	-5.2	56.1	65.1	-8.2	-2.0	24.3	26.9	
Nondurable goods.....	2,023.7	24.2	28.9	6.7	38.1	5.1	6.1	1.4	7.9	
Services.....	3,748.5	20.0	7.9	13.1	20.5	2.2	0.9	1.4	2.2	
Private fixed investment.....	1,669.1	16.9	-0.6	27.4	53.8	4.4	-0.1	7.1	14.0	
Nonresidential.....	1,224.9	6.6	-13.2	20.9	31.9	2.3	-4.4	7.3	11.1	
Structures	211.9	-5.6	-1.6	2.2	-1.3	-9.9	-2.9	4.2	-2.4	
Equipment and software	1,036.0	14.9	-12.2	19.6	36.5	6.2	-4.8	8.3	15.4	
Residential.....	431.6	8.8	9.6	6.5	19.6	9.4	10.1	6.6	20.4	
Government consumption expenditures and gross investment.....	1,778.3	19.4	1.7	35.9	5.7	4.6	0.4	8.5	1.3	
Federal.....	671.7	16.3	1.1	37.0	2.2	11.0	0.7	25.5	1.4	
National defense.....	450.2	10.7	-3.5	40.5	0.0	11.0	-3.3	45.8	0.0	
Nondefense.....	222.0	5.6	4.5	-3.1	2.3	11.1	8.4	-5.4	4.1	
State and local.....	1,107.6	3.4	0.6	-0.5	3.5	1.2	0.2	-0.2	1.3	
Addenda:										
Final sales of domestic product	9,814.7	25.9	53.1	94.9	183.6	1.1	2.3	4.0	7.8	
Disposable personal income.....	7,280.6	24.2	27.3	45.1	125.9	1.4	1.6	2.6	7.2	

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

ments were partly offset by a slowdown in government spending and a downturn in nonresidential investment in structures. Inventory investment decreased about as much as in the second quarter.

Exports and imports combined to produce an improvement in the trade balance. Exports turned up, and the growth of imports slowed sharply. (Imports are subtracted in the calculation of the trade balance and of GDP.) The upturn in exports was mainly accounted for by nonautomotive capital goods and by travel services. In imports, most categories of goods contributed to the slowdown, while services (led by travel services) turned up. Combined, exports and imports added 0.84 percentage point to GDP growth in the third quarter after subtracting 1.29 percentage points in the second (table 2).

Consumer spending increased 6.6 percent in the third quarter—almost 3 percentage points more than in the second quarter—and contributed 4.66 percentage points to GDP growth after contributing 2.68 percentage points. Purchases of durable goods, of nondurable goods, and of services all increased more than in the second quarter. The step-up in nondurable goods was the most pronounced, and all the major categories of nondurable goods contributed. The step-up in services was mainly accounted for by purchases of electricity and gas. In durable goods, step-ups in purchases of motor vehicles and of furniture and household equipment were partly offset by a slowdown in purchases of “other” durable goods.

Residential investment increased for the seventh

Table 2. Contributions to Percent Change in Real Gross Domestic Product
[Seasonally adjusted at annual rates]

	2002	2003		
	IV	I	II	III
Percent change at annual rate:				
Gross domestic product.....	1.4	1.4	3.3	7.2
Percentage points at annual rates:				
Personal consumption expenditures.....	1.19	1.40	2.68	4.66
Durable goods.....	-0.72	-0.17	1.79	2.05
Nondurable goods.....	1.01	1.21	0.28	1.61
Services.....	0.90	0.36	0.60	1.00
Gross private domestic investment.....	0.93	-0.83	0.30	1.37
Fixed investment.....	0.65	-0.02	1.05	2.04
Nonresidential.....	0.24	-0.47	0.74	1.12
Structures.....	-0.25	-0.07	0.10	-0.05
Equipment and software.....	0.49	-0.40	0.64	1.18
Residential.....	0.41	0.45	0.31	0.92
Change in private inventories.....	0.28	-0.82	-0.74	-0.67
Net exports of goods and services.....	-1.59	0.78	-1.29	0.84
Exports.....	-0.59	-0.13	-0.09	0.88
Goods.....	-0.82	0.13	-0.10	0.50
Services.....	0.23	-0.25	0.02	0.38
Imports.....	-1.00	0.91	-1.21	-0.04
Goods.....	-0.71	0.81	-1.50	0.29
Services.....	-0.30	0.10	0.30	-0.33
Government consumption expenditures and gross investment.....	0.85	0.08	1.59	0.27
Federal.....	0.70	0.05	1.61	0.11
National defense.....	0.46	-0.15	1.74	0.01
Nondefense.....	0.25	0.20	-0.13	0.10
State and local.....	0.15	0.03	-0.02	0.16

NOTE. More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

consecutive quarter and contributed 0.92 percentage point to third-quarter GDP growth after contributing 0.31 percentage point to second-quarter growth. Construction of housing units increased more than in the second quarter, and brokers' commissions stepped up on the strength of record home sales.

Nonresidential fixed investment contributed 1.12 percentage points to GDP growth in the third quarter after contributing 0.74 percentage point in the second quarter. Investment in equipment and software stepped up; “other” equipment (including agricultural and construction equipment) accelerated, and transportation equipment (mainly motor vehicles) turned up. In contrast, investment in structures turned down; oil-well exploration and development slowed, and construction by utilities decreased more than in the second quarter. The increase in equipment and software was the biggest since early 2000; the decrease in structures was the ninth in the last 11 quarters.

Government spending slowed and contributed 0.27 percentage point to third-quarter GDP growth after contributing 1.59 percentage points to second-quarter growth. National defense spending was flat after increasing very sharply; this slowdown was only partly offset by upturns in Federal nondefense spending and in spending by states and localities.

Inventory investment subtracted 0.67 percentage point from GDP growth in the third quarter, about the same amount as in the second quarter. The pace of inventory liquidation increased in the third quarter.

The advance estimates for the third quarter also show the following:

- Real final sales of domestic product (GDP less the change in private inventories) increased 7.8 percent after increasing 4.0 percent.
- Real gross domestic purchases increased 6.0 percent after increasing 4.4 percent.
- The production of goods and of structures increased substantially more in the third quarter than in the second, but the production of services slowed (table 3).
- The output of motor vehicles turned up sharply. Excluding motor vehicle output, real GDP increased 6.1 percent in the third quarter after increasing 3.5 percent in the second.
- Final sales of computers stepped up sharply, registering the largest increase since early 1983. Excluding final sales of computers, real GDP increased 6.7 percent after increasing 3.1 percent.
- The personal saving rate edged up to 3.3 percent from 3.2 percent.³

3. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. An estimate of the *national* saving rate (which is measured as gross saving as a percentage of gross national product) will be available at the end of November along with the “preliminary” estimates of the NIPAs for the third quarter.

Table 3. Real Gross Domestic Product by Type of Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2003	2002	2003			2002	2003		
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	9,797.2	32.6	33.8	77.4	167.8	1.4	1.4	3.3	7.2
Goods	3,919.3	-14.7	20.8	23.1	135.3	-1.6	2.2	2.5	15.1
Services	5,089.1	38.2	7.2	44.9	22.4	3.1	0.6	3.6	1.8
Structures	806.0	4.8	6.9	8.2	22.1	2.5	3.6	4.3	11.7
Addenda:									
Motor vehicle output	390.9	-13.3	-1.6	-3.1	33.2	-13.4	-1.8	-3.3	42.6
Gross domestic product less motor vehicle output	9,411.3	44.0	35.0	79.6	138.9	1.9	1.5	3.5	6.1
Final sales of computers						26.7	28.2	27.8	94.1
Gross domestic product less final sales of computers						1.2	1.3	3.1	6.7

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

Third-Quarter 2003 Advance NIPA Estimates: Source Data and Assumptions

The "advance" estimate for the third quarter is based on the following major source data; as more and better data become available, the estimates will be revised. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3), unit auto and truck sales (3), and consumers' shares of auto and truck sales (2);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2), single-family housing starts (3), and sales of new and existing houses (3);

Change in private inventories: Trade and nondurable manufacturing inventories (2), durable manufacturing inventories (3), and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Some Federal outlays were available for 2 months, others for 3, state and local construction put in place (2), and State and local employment (3);

GDP prices: Consumer price indexes (3), producer price indexes (3), U.S. import and export price indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive list is available on BEA's Web site at <www.bea.gov>.

Table A. Summary of Major Data Assumptions for Advance Estimates, 2003:III

[Billions of dollars, seasonally adjusted at annual rates]

	2003					
	April	May	June	July	August	September ¹
Private fixed investment:						
Nonresidential structures:						
Value of new total private construction put in place less residential (including improvements)	218.9	216.1	217.1	217.8	212.0	213.4
Equipment and software:						
Manufacturers' shipments of complete aircraft	20.0	22.6	34.1	29.1	24.8	21.9
Residential structures:						
Value of new residential construction put in place:						
Single-family	287.6	290.6	292.9	297.3	303.0	308.7
Multifamily	32.7	33.6	33.4	33.9	34.4	35.0
Change in private inventories:						
Change in inventories for nondurable manufacturing	2.4	-3.9	10.9	-4.6	4.3	1.2
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment	-14.7	-24.5	5.6	15.2	-4.6	-12.4
Net exports: ²						
Exports of goods:						
U.S. exports of goods, international-transactions-accounts basis	686.8	693.1	711.1	724.2	693.0	712.1
Excluding gold	682.9	687.9	703.3	720.5	686.0	707.8
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	1,243.1	1,253.0	1,252.0	1,264.6	1,226.9	1,268.7
Excluding gold	1,240.2	1,249.4	1,246.2	1,262.1	1,221.5	1,265.0
Net exports of goods	-556.3	-559.8	-540.9	-540.4	-533.9	-556.6
Excluding gold	-557.3	-561.5	-542.9	-541.6	-535.6	-557.2
Government:						
State and local:						
Structures:						
Value of new construction put in place	191.5	193.2	199.5	198.1	198.8	198.5

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

Prices

A step-up in the price index for gross domestic purchases was partly accounted for by an upturn in energy prices (table 4). Excluding food and energy items, the price index increased 1.5 percent in the third quarter after increasing 0.8 in the second (chart 2).

Prices of goods and services purchased by consumers increased 2.4 percent after increasing less than 1 percent. The price of gasoline and oil turned up, while the price of fuel oil and coal decreased less than in the second quarter. Food prices increased about the same as in the second quarter. The prices of other consumer purchases increased 1.8 percent after increasing 1.1 percent. Prices of services increased 3.1 percent, virtually the same as in each of the preceding five quarters. Prices of durable goods decreased 3.6 percent, about the same as in each of the first two quarters of this

year; since the first quarter of 1995, prices on durable goods have decreased at an average annual rate of 2.2 percent.

Prices of private fixed investment increased 0.9 percent in the third quarter after decreasing that amount in the second. Prices of equipment and software decreased less than in the second quarter, and prices of structures turned up. Since the beginning of 1995, equipment and software prices have increased only twice—and then only slightly. Prices of structures, in contrast, have increased in five of the last six quarters.

Prices paid by government increased 1.1 percent after decreasing slightly. The upturn mainly reflected prices paid by states and localities for nondurable goods (including energy goods).

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.7 percent, 0.2 percentage point less than the price index for gross domestic purchases. The difference between the two indexes reflects a smaller increase in export prices than in import prices.⁴ The increase in import prices was dominated by petroleum.

4. Export prices are included in the GDP price index; import prices are included in the price index for gross domestic purchases.

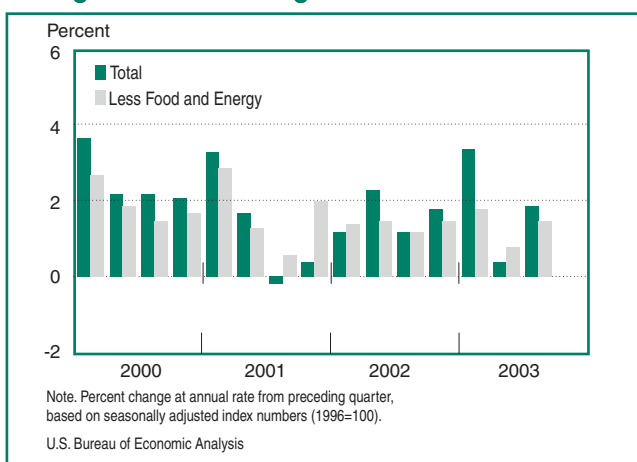
Table 4. Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1996=100)]

	2002	2003			
	IV	I	II	III	
Gross domestic product	1.8	2.4	1.0	1.7	
Less: Exports of goods and services.....	0.9	3.9	0.8	1.9	
Plus: Imports of goods and services.....	0.9	11.7	-3.9	3.1	
Equals: Gross domestic purchases	1.8	3.4	0.4	1.9	
Less: Change in private inventories.....					
Equals: Final sales to domestic purchasers	1.8	3.5	0.3	1.9	
Personal consumption expenditures.....	1.8	2.7	0.8	2.4	
Durable goods.....	-2.2	-3.7	-3.8	-3.6	
Nondurable goods.....	1.2	4.6	-1.9	3.6	
Services.....	3.0	3.1	3.1	3.1	
Private fixed investment.....	1.8	1.9	-0.9	0.9	
Nonresidential.....	0.4	-0.4	-1.5	0.3	
Structures.....	2.3	4.1	-0.4	2.2	
Equipment and software.....	-0.2	-1.8	-1.8	-0.2	
Residential.....	5.0	7	0.4	2.0	
Government consumption expenditures and gross investment.....	1.6	7.9	-0.4	1.1	
Federal.....	0.3	9.8	0.9	1.0	
National defense.....	1.2	9.3	0.8	1.1	
Nondefense.....	-1.2	10.9	1.0	0.8	
State and local.....	2.2	6.9	-1.1	1.1	
Addenda:					
Gross domestic purchases:					
Food.....	1.8	1.8	2.4	2.4	
Energy.....	8.8	52.6	-13.7	11.2	
Less food and energy.....	1.5	1.8	0.8	1.5	
Personal consumption expenditures:					
Food.....	1.8	1.7	2.4	2.5	
Energy goods and services ¹	7.6	46.4	-8.1	12.3	
Less food and energy.....	1.5	0.8	1.1	1.8	

NOTE. Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

Chart 2. Gross Domestic Purchases Prices: Change From Preceding Quarter



Personal Income

The growth of real disposable personal income (DPI) accelerated sharply in the third quarter (chart 3). The step-up mainly reflected a \$100.0 billion drop in personal tax and nontax payments (table 5). In turn, the drop in taxes reflected the lower withholding rates and the advance payments of child tax credits provided by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (signed into law May 28, 2003). The step-up in real DPI was restrained by a 2.4-percent increase in the implicit price deflator for personal consumption ex-

penditures (which is used to deflate DPI); in the second quarter, the deflator had increased 0.8 percent.

Personal income, which is measured only in current dollars, increased \$91.0 billion (or 4.0 percent) after increasing \$75.8 billion (3.4 percent). The step-up mainly reflected an upturn in rental income of persons and a step-up in proprietors' income; in addition, wage and salary disbursements contributed to the

Chart 3. Selected Personal Income and Saving Measures

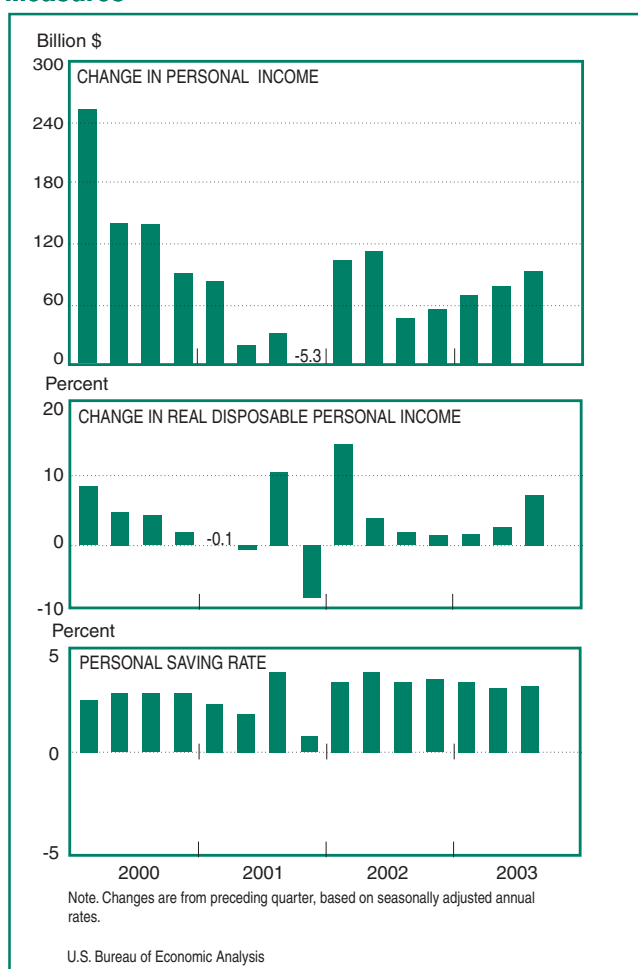


Table 5. Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level		Change from preceding quarter				
	2003	2002	2003				
			III	IV	I	II	III
Wage and salary disbursements	5,107.7	15.7	30.7	25.4	28.5		
Private industries	4,217.2	7.4	15.1	16.1	28.3		
Goods-producing industries	1,111.9	-5.9	-3.1	2.8	2.9		
Manufacturing	746.5	-5.9	-1.4	-3.2	-0.9		
Distributive industries	1,132.4	-3.2	7.2	2.7	7.9		
Service industries	1,972.9	16.6	10.9	10.6	17.5		
Government	890.5	8.3	15.6	9.3	0.2		
Other labor income	649.6	12.7	9.0	5.8	4.6		
Proprietors' income with IVA and CCAdj	833.6	12.9	12.8	20.1	29.1		
Farm	20.7	1.0	2.5	1.2	5.3		
Nonfarm	812.9	11.9	10.3	18.9	23.8		
Rental income of persons with CCAdj	121.1	-13.5	-3.7	-11.6	5.8		
Personal dividend income	466.5	6.5	7.4	7.8	7.5		
Personal interest income	1,082.0	0.2	-5.1	5.7	0.5		
Transfer payments to persons	1,383.2	20.7	21.7	24.8	17.6		
Less: Personal contributions for social insurance	396.5	1.5	5.1	2.1	2.5		
Personal income	9,247.0	53.6	67.7	75.8	91.0		
Less: Personal tax and nontax payments	982.6	-8.9	-16.5	9.0	-100.0		
Equals: Disposable personal income	8,264.4	62.6	84.1	66.8	191.0		
Less: Personal outlays	7,987.7	57.7	86.9	86.1	174.0		
Equals: Personal saving	276.7	4.9	-2.9	-19.2	17.0		
Addenda: Special factors in personal income:							
In government wages and salaries:							
Federal pay raise	7.7	0.0	6.3	0.7	0.7		
Federal civilian retroactive pay raise	0.0	0.0	0.0	1.6	-1.6		
Reservists' pay	8.8	-1.0	3.3	4.8	-1.6		
In transfer payments to persons:							
Social security retroactive payments	0.0	2.0	-2.0	0.0	0.0		
Cost-of-living adjustments in Federal transfer programs	7.6	0.5	7.1	0.0	0.0		
Earned-income credit	3.9	0.0	3.9	0.0	0.0		
In personal contributions for social insurance:							
Increase in taxable wage base	1.4	0.0	1.4	0.0	0.0		
Change in premium for supplementary medical insurance	2.1	0.0	2.1	0.0	0.0		
In personal tax and nontax payments:							
Federal tax law changes	-112.7	0.0	-5.2	0.0	107.5		

NOTE. Most dollar levels are in NIPA table 2.1.

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

step-up modestly.

Rental income increased \$5.8 billion after decreasing twice that much. The second-quarter decrease and the decreases in the four preceding quarters mainly reflected increased expenses associated with mortgage refinancings (mortgage closing costs and other expenses are subtracted in the calculation of rental income). In the third quarter of this year, refinancing activity dropped markedly.

Proprietors' income increased \$29.1 billion; in percentage terms, the increase (15.3 percent) was the largest in more than 7 years. An increase in the income of nonfarm proprietors was concentrated in real estate and construction. An increase in the income of farm proprietors reflected increased livestock output.

Wage and salary disbursements increased a little

more than in the second quarter. A step-up in disbursements by private industries was largely offset by a slowdown in government disbursements, which were boosted in the second quarter by:

- An increase in military pay, including pay for reservists called to active duty as well as family separation allowances and imminent-danger pay, and
- A retroactive adjustment to civilian pay.

The upturn in rental income and the step-ups in proprietors' income and in wage and salary disbursements were partly offset by slowdowns in transfer payments to persons and in personal interest income. The slowdown in transfer payments was in social security and in unemployment insurance. The slowdown in personal interest income mainly reflected larger decreases in third-quarter interest rates.